

# *Audit Report*



## PROCUREMENT ACTIONS RELATED TO THE 3.0 MANAGED CARE SUPPORT SERVICES REQUEST FOR PROPOSAL

Report No. D-2001-125

May 22, 2001

Office of the Inspector General  
Department of Defense

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<b>Abstract</b> This audit is in response to allegations to the Defense Hotline regarding the TRICARE 3.0 Managed Care Support Services Request for Proposal. The complainant alleged that the contract to review the 3.0 Request for Proposal was improper; and that a consulting firms findings from its review of the TRICARE 3.0 Request for Proposal were unfounded and incorrect, and there was little rebuttal presented to the Defense Medical Oversight Committee by the TRICARE Management Activity. TRICARE provides regionally managed health care programs for active duty and retired members of the uniformed services, their families, and their survivors. TRICARE 3.0 was planned to be the next generation of managed care support services contracts for 12 TRICARE regions in the United States.		
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### **Acronyms**

DMOC	Defense Medical Oversight Committee
RFP	Request for Proposal
TMA	TRICARE Management Activity



INSPECTOR GENERAL  
DEPARTMENT OF DEFENSE  
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May 22, 2001

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE FOR ACQUISITION,  
TECHNOLOGY, AND LOGISTICS  
ASSISTANT SECRETARY OF DEFENSE (HEALTH  
AFFAIRS)

SUBJECT: Audit Report on the Procurement Actions Related to the 3.0 Managed Care Support Services Request for Proposal (Report No. D-2001-125)

We are providing this report for information and use. This audit was performed in response to allegations to the Defense Hotline concerning cancellation of the TRICARE 3.0 Managed Care Support Services Request for Proposal. No written response to this report was required, and none was received.

We appreciate the courtesies extended to the audit staff. For additional information on this report, please contact Mr. Joseph P. Doyle at (703) 604-9349 (DSN 664-9349) ([jdoyle@dodig.osd.mil](mailto:jdoyle@dodig.osd.mil)) or Mr. Michael J. Tully at (703) 604-9347 (DSN 664-9347) ([mtully@dodig.osd.mil](mailto:mtully@dodig.osd.mil)). See Appendix B for the report distribution. The audit team members are listed inside the back cover.

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## Office of the Inspector General, DoD

**Report No. D-2001-125**  
(Project No. D2000CK-0269)

**May 22, 2001**

### Procurement Actions Related to the 3.0 Managed Care Support Services Request for Proposal

#### Executive Summary

**Introduction.** This audit is in response to allegations to the Defense Hotline regarding the TRICARE 3.0 Managed Care Support Services Request for Proposal. The complainant alleged that the contract to review the 3.0 Request for Proposal was improper; and that a consulting firm's findings from its review of the TRICARE 3.0 Request for Proposal were unfounded and incorrect, and there was little rebuttal presented to the Defense Medical Oversight Committee by the TRICARE Management Activity. TRICARE provides regionally managed health care programs for active duty and retired members of the uniformed services, their families, and their survivors. TRICARE 3.0 was planned to be the next generation of managed care support services contracts for 12 TRICARE regions in the United States.

**Objective.** The audit objective was to determine whether procurement actions and decisions regarding the 3.0 Managed Care Support Services Request for Proposal were proper.

**Results.** The allegation that the contract to review the 3.0 Request for Proposal was improper was not substantiated. We determined that there were no improprieties in the award of the contract to review the 3.0 Request for Proposal or in the contract itself. The allegation that there was little rebuttal presented to the Defense Medical Oversight Committee by the TRICARE Management Activity on the results of a consulting firm's review of TRICARE 3.0 was partially substantiated. The TRICARE Management Activity provided the Assistant Secretary of Defense (Health Affairs) a written response on the results of the review. The Assistant Secretary of Defense (Health Affairs) decided not to provide the response to the Defense Medical Oversight Committee because the Under Secretary of Defense (Personnel and Readiness) decision to cancel the TRICARE 3.0 Request for Proposal had already been made. We did not review the alleged unfounded and incorrect consulting firm's findings because the June 13, 2000, Defense Medical Oversight Committee's recommendation to cancel TRICARE 3.0 was not based solely on the review. We determined that a detailed review of the consulting firm's findings would not be productive at this time. See the Summary of Allegations and Audit Results section for a discussion of the allegations.

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## Background

This audit was conducted in response to allegations to the Defense Hotline concerning cancellation of the TRICARE 3.0 Managed Care Support Services Request for Proposal (RFP). The complainant alleged that the contract to review the 3.0 RFP was improper; and that a consulting firm's findings from its review of the TRICARE 3.0 Request for Proposal were unfounded and incorrect, and there was little rebuttal presented to the Defense Medical Oversight Committee by the TRICARE Management Activity (TMA).

**TRICARE.** In 1995, the DoD introduced TRICARE to provide regionally managed health care programs for active duty and retired members of the uniformed services, their families, and survivors. TRICARE is managed by TMA. TRICARE 3.0 was planned to be the next generation of managed care support services contracts for 12 TRICARE regions in the United States. The first TRICARE 3.0 RFP was issued for Region 11 (Washington, Oregon, and six counties in Idaho) on February 18, 2000. TMA estimated this acquisition cost at about \$1 billion.

**Defense Medical Oversight Committee.** In August 1999, the Defense Medical Oversight Committee (DMOC) was formed to provide oversight of the Defense Health Program and make recommendations to the Defense Resource Board on health policy and resourcing issues. The DMOC membership consists of:

- Under Secretary of Defense (Comptroller);
- Under Secretary of Defense (Personnel and Readiness);
- Assistant Commandant, Marine Corps;
- Services Vice Chiefs of Staff;
- Assistant Secretary of Defense (Health Affairs);
- Military Department Under Secretaries;
- Director for Logistics (J-4), Joint Chiefs of Staff;
- Director, Program Analysis and Evaluation; and
- Surgeons General.

**TRICARE 3.0 Reviews Requested by DMOC.** The DMOC decided to request an analysis of the TRICARE 3.0 RFP on December 17, 1999, because the DMOC wanted to ensure that DoD had the best possible vehicle for contractor health care. Further, they were concerned about the Defense Health Program budget shortfall. The Center for Naval Analysis performed a review of the Region 11 TRICARE 3.0 RFP from January 6, 2000, through February 1, 2000, making several recommendations regarding financing and

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performance criteria. The DMOC decided that the Region 11 RFP could be released since the contract in place was close to expiring and the Region 11 RFP could stand on its own.

A longer, more rigorous review of TRICARE 3.0 was conducted by a consulting firm from March 2, 2000, through June 16, 2000, for a cost of \$550,000. The contract for the consulting firm's review of TRICARE 3.0 was placed against the Management, Organizational and Business Improvement Services Federal Supply Schedule. The consulting firm reviewed the Region 6 TRICARE 3.0 RFP because it was the next TRICARE 3.0 RFP to be issued. The consulting firm concluded that there were concerns regarding the ability of TRICARE 3.0 to meet two of its stated objectives; specifically, to contain costs and improve beneficiary satisfaction.

**Cancellation of TRICARE 3.0.** The DMOC concluded that the TRICARE 3.0 RFP did not adequately address the requirements of TRICARE 3.0. Based on the DMOC recommendation, the Under Secretary of Defense (Personnel and Readiness) directed TMA to cancel the TRICARE 3.0 RFP for Region 11, effective July 3, 2000, and delayed initiating any further RFPs for other regions. The DMOC concluded that further study was needed to evaluate health care contract options, and to define the strategic direction and organizational management of the Defense Health Program. The FY 2001 DoD Appropriations Act authorized 2-year extensions for TRICARE managed care support contracts in effect, or in the final stages of acquisition, as of September 30, 2000.

## Objective

The audit objective was to determine whether procurement actions and decisions regarding the 3.0 Managed Care Support Services Request for Proposal were proper. See Appendix A for a discussion of the audit scope and methodology and prior coverage.

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## Summary of Allegations and Audit Results

A summary of the allegations to the Defense Hotline and our audit results are discussed below.

**Allegation.** The contract to review the TRICARE 3.0 RFP was improper. Further, the contract contained a caveat stating that if the contractor identified any problems they would receive a follow-on contract to fix the problems.

**Audit Results.** The allegation was not substantiated. We determined that there were no improprieties in the award of the contract to review the TRICARE 3.0 RFP or in the contract itself. Further, the contract did not contain a provision indicating that the consulting firm would receive a follow-on contract. The procurement of the contract to review TRICARE 3.0 was started prior to release of the 3.0 RFP for Region 11 to the public for bid. The contracting office at the Naval Medical Logistics Command performed a market survey and identified four potential firms to conduct the TRICARE 3.0 review. The statement of objectives was released to the potential firms on January 13, 2000. The winning proposal was determined to represent the best value to the government, price and technical factors considered. A contract was awarded for the review of TRICARE 3.0 on March 2, 2000. The contract did not contain a provision indicating that if the contractor found problems with TRICARE 3.0, the same contractor would receive a follow-on contract to fix the problems identified.

The selected consulting firm was awarded two follow-on contracts to explore TRICARE 3.0 options for the next generation of managed care support contracts and to develop a Military Health System strategic business plan, organizational assessment, and procurement strategy. The follow-on contracts, valued at \$2.96 million, were awarded on a sole-source basis. The sole-source justification was that the consulting firm was the only source capable of performing the follow-on analysis without replicating the results of the first review at considerable time and expense to the government. The sole-source justification was reasonable.

**Allegation.** The consulting firm's findings from its review of the TRICARE 3.0 RFP were unfounded and incorrect, and there was little rebuttal presented to the DMOC by TMA.

**Audit Results.** The allegation was partially substantiated. There was little rebuttal presented to the DMOC on the consulting firm's findings. In July 2000, TMA informally provided the Assistant Secretary of Defense (Health Affairs) a written response to the alleged errors in the consulting firm's report on the TRICARE 3.0 review. The Assistant Secretary of Defense (Health Affairs) did not provide the response to the DMOC because the Under Secretary of Defense (Personnel and Readiness) decision to cancel the TRICARE 3.0 RFP had already been made.

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The DMOC recommendation to cancel the 3.0 RFP was based on a variety of factors. The DMOC recommendation was based on these factors:

- a Center for Naval Analysis study of the 3.0 RFP that indicated there were TRICARE program issues and Military Health System organizational issues that had a significant effect on delivery of military health care,
- TRICARE contractors' testimony before Congress that the TRICARE 3.0 RFP was flawed and would result in a less than desirable contract,
- a limited industry interest in the Region 11 3.0 RFP, and
- briefings with the consulting firm's study review team.

We did not review the alleged unfounded and incorrect statements in the consulting firm's report because the study was not the sole reason that the TRICARE 3.0 RFP was cancelled. In addition, determining the validity of the consulting firm's findings at this time would not change the DMOC recommendation to cancel TRICARE 3.0.

## **Subsequent Events**

Subsequent to the cancellation of TRICARE 3.0, the FY 2001 National Defense Authorization Act opened TRICARE eligibility to all senior military retirees and their dependents. The impact of this addition to TRICARE is unknown. In addition, the DMOC is considering reorganizing the Military Health System, which may make TRICARE 3.0 obsolete.

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## Appendix A. Audit Process

### Scope and Methodology

**Work Performed.** We interviewed personnel from the Assistant Secretary of Defense (Health Affairs), TRICARE Management Activity, Naval Medical Logistics Command, the Air Force Surgeon General, and the Defense Medical Oversight Committee support staff to obtain information on the TRICARE 3.0 RFP, the consulting firm's contracts, and events surrounding the cancellation of the 3.0 RFP. We reviewed the 3.0 RFP, the consulting firm's findings, and TMA response to the findings. We reviewed contract files to determine whether the consulting firm's contract to review TRICARE 3.0 and the follow-on contracts were proper.

**Limitations to Scope.** Because our objectives were limited to allegations related to TRICARE 3.0, we did not review the management control program.

**General Accounting Office High-Risk Area.** The General Accounting Office has identified several high-risk areas in the Department of Defense. This report provides coverage of the Defense Contract Management high-risk area.

**Use of Computer-Processed Data.** We did not use computer-processed data to perform this audit.

**Audit Type, Dates, and Standards.** We performed this economy and efficiency audit from September 2000 through March 2001 in accordance with auditing standards issued by the Comptroller General of the United States, as implemented by the Inspector General, DoD.

**Contacts During the Audit.** We visited or contacted individuals and organizations within the DoD. Further details are available upon request.

### Prior Coverage

No prior audit coverage has been conducted on 3.0 Managed Care Support Services procurement actions during the last 5 years.

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## **Appendix B. Report Distribution**

### **Office of the Secretary of Defense**

Under Secretary of Defense for Acquisition, Technology, and Logistics

Under Secretary of Defense (Personnel and Readiness)

Assistant Secretary of Defense (Health Affairs)

Director, TRICARE Management Activity

Under Secretary of Defense (Comptroller)

Deputy Chief Financial Officer

Deputy Comptroller (Program/Budget)

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Auditor General, Department of the Army

### **Department of the Navy**

Naval Inspector General

Auditor General, Department of the Navy

### **Department of the Air Force**

Assistant Secretary of the Air Force (Financial Management and Comptroller)

Auditor General, Department of the Air Force

### **Other Defense Organizations**

Director, Defense Contract Management Agency

### **Non-Defense Federal Organization**

Office of Management and Budget

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## **Congressional Committees and Subcommittees, Chairman and Ranking Minority Member**

Senate Committee on Appropriations

Senate Subcommittee on Defense, Committee on Appropriations

Senate Committee on Armed Services

Senate Committee on Governmental Affairs

House Committee on Appropriations

House Subcommittee on Defense, Committee on Appropriations

House Committee on Armed Services

House Committee on Government Reform

House Subcommittee on Government Efficiency, Financial Management, and  
Intergovernmental Relations, Committee on Government Reform

House Subcommittee on National Security, Veterans Affairs, and International  
Relations, Committee on Government Reform

House Subcommittee on Technology and Procurement Policy, Committee on  
Government Reform

## **Audit Team Members**

The Contract Management Directorate, Office of the Assistant Inspector General for Auditing, DoD, prepared this report. Personnel of the Office of Inspector General, DoD, who contributed to the report are listed below.

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